

TO: Files

CC: San Diego Audit Committee

FROM: Willkie Farr & Gallagher LLP

RE: Interview of Leslie LaBonte on April 25, 2006

DATED: May 24, 2006

On April 25, 2006, Carolyn Miller, in Willkie Farr & Gallagher LLP's capacity as counsel to the Audit Committee, interviewed Leslie LaBonte. Ms. LaBonte was represented during this interview by her lawyer, Theresa McAteer, of McAteer & McAteer. Also present were Donielle Evans of KPMG and Raymond Sarola of Willkie Farr & Gallagher LLP. The interview took place in a conference room on the 3rd floor of the City Administration Building in San Diego and lasted approximately one hour.

The following memorandum reflects my thoughts, impressions, and opinions regarding our meeting with Leslie LaBonte, and constitutes protected attorney work product. It is not, nor is it intended to be, a substantially verbatim record of the interview.

Warnings

Ms. Miller informed Ms. LaBonte that she represents the Audit Committee and is conducting this investigation on its behalf. Ms. Miller explained that she is not counsel to Ms. LaBonte and the communications between them during this interview are not privileged. Ms. Miller stated that any information provided by Ms. LaBonte may be made public in the Audit Committee's report, or otherwise shared with the government. This information would not be provided to other interviewees, however, and Ms. Miller asked that Ms. LaBonte not discuss this interview with others who are yet to be interviewed for this investigation.

At this point, Ms. McAteer asked Ms. Miller to whom the Audit Committee's report and the notes of this interview would be distributed. Ms. Miller responded that the report would be made public and shared with the government, and that the notes to this interview are attorney work product and will not be shared with third parties. Ms. McAteer asked if the notes would be shared with the City Attorney's Office in particular, and Ms. Miller replied that the City Attorney's Office would receive only the public report.

Ms. McAteer inquired whether she and Ms. LaBonte would have an opportunity to review and revise a draft of the interview summary. Ms. Miller explained that this practice was criticized in the Vinson & Elkins interview process, and Willkie Farr will not be affording witnesses this opportunity.

Background

Ms. Miller asked Ms. LaBonte to describe her education and employment history. Ms. LaBonte received a Bachelor's degree in speech communication from San Diego State University in December 1996. After graduation, she worked for Qualcomm for four years in their Accounting Department, processing invoices, audits, and travel expensing. Ms. Miller asked if she had any background or training in accounting prior to this job, and she replied that she did not. In 2001, she accepted a position as a receptionist in Mayor Murphy's office, and during this time also served as an assistant to Bruce Williams, who was in charge of Community Relations. Ms. Miller asked her to describe her responsibilities as receptionist and she responded that they included handling emails that were sent to the Mayor's personal account. These were largely from constituents, and it was her usual practice to either answer them herself or route them to the appropriate staff member. Examples of issues that she would handle herself included potholes or parking issues. Ms. Miller asked if she ever deleted any emails and Ms. LaBonte stated that she never deleted emails, but archived them in the folders designated for the staff member to whom the issue was routed.

Ms. Miller then asked her to describe her responsibilities as assistant to Mr. Williams. She replied that she attended to constituent issues in his district. She worked as his assistant for 6 months, until becoming the assistant to John Kern, Mayor Murphy's Chief of Staff. Ms. Miller asked why she switched, and Ms. LaBonte replied that she filled in for Mr. Kern's assistant (Sheila Siecmunzk) when she went out on disability and when she did not return to work, Ms. LaBonte took over the position. Ms. Labonte worked for Mr. Kern from February 2002 until June 2005, and then moved to the position of Deputy Policy Advisor for her last two months in the Mayor's office. This last move was due to personnel changes implemented by the Mayor's new Chief of Staff, Tom Story. Ms. Labonte left the office before the Mayor resigned and is currently employed as Assistant Project Developer for Black Mountain Ranch. Ms. Miller asked her to explain her responsibilities in this position. Ms. LaBonte explained that this position should be called "event planning," since she organizes fundraisers and handles scheduling for the president of Black Mountain Ranch.

Ms. Miller asked if Ms. LaBonte left the City voluntarily and she stated that she left voluntarily when she was offered a job, which was around the time the Mayor was leaving.

Ms. Miller asked her when she had spoken to Mr. Kern last. Ms. LaBonte replied that she spoke to Mr. Kern the day before the interview and that he was aware she was being interviewed. They did not discuss topics that might arise during the interview, and Ms. LaBonte received no instructions from him concerning this interview. Ms. LaBonte currently works part-time for Mr. Kern, as the bookkeeper for his consulting company, Kern Co. This company consults on City politics and is currently working on a campaign for a local judge, a project involving the Regents Bridge, and a contract with a development company. Ms. LaBonte last spoke to Mr. Murphy in October, when they met at the wedding of a staff member, but they did not discuss this interview. Ms. Labonte stated that she spoke to her current boss about the interview, and that he is aware of the subject matter of the investigation. Ms. Miller asked if he engaged in any preparation for this interview, other than discussions with her counsel, and she responded that she did not prepare for this interview.

The Mayor's Office

In her position as assistant to the Mayor's Chief of Staff, Ms. LaBonte handled scheduling issues, routed calls, and dealt with memoranda and occasionally emails. When individuals would call to request a meeting with the Mayor or his staff, Ms. LaBonte would tell Mr. Kern and then collect materials on the subject of the meeting. It was Ms. LaBonte's responsibility to contact other staff who needed to attend. The schedule was updated on a daily basis, and Ms. LaBonte would synchronize daily and monthly activities to her computer. This was a procedure that she inherited from her predecessor. It was also her responsibility to distribute memoranda from Mr. Kern or the Mayor to the City Council or other City departments.

Ms. Miller asked her to describe her daily schedule, and Ms. LaBonte responded that every day was different in the Mayor's office. The Mayor's staff would hold meetings once a week on Mondays, which were conducted by Mr. Kern. There was no agenda for these meetings and no notes were taken. There would be other, "task force" meetings held as needed. Ms. Miller asked if Ms. LaBonte had daily contact with Mr. Kern. She responded that Mr. Kern interacted with the whole staff on a daily basis.

Regarding emails sent to the Mayor, Ms. LaBonte stated that she would either route emails to Mr. Kern or print and hand them to him. Ms. Miller asked if she had access to Mr. Kern's email account, and she replied that she did but she rarely accessed it, and only recalled doing so when he was out of the office and needed her to look something up for him.

Ms. Miller asked her to describe the structure of the Mayor's staff during her tenure. The Mayor had a Confidential Assistant, a Chief of Staff (who had his own assistant, Ms. LaBonte), two Senior Policy Advisors, a staff member in charge of Community Relations, a Chief of Protocol, an Office Manager (and his assistant), a receptionist, a Press Secretary, a Deputy Press Secretary, and a Rules Committee Consultant (Bill Baber).

According to Ms. LaBonte, the Mayor had four staff members who could be called "policy advisors": Tom Story, Dennis Gibson, Bill Baber, and Rudy Fernandez. Ms. Miller asked Ms. LaBonte to describe the work that each of them handled. Ms. LaBonte responded that Mr. Story was responsible for environmental and transportation issues; Mr. Gibson handled the budget and sports; Mr. Baber handled the docket; and Mr. Fernandez was responsible for military, veterans, and border issues. Ms. Miller asked Ms. LaBonte if these staff members also divided up responsibility for contacting different City agencies, and she responded that she did not know.

Ms. Miller then asked if Mr. Kern had any direct contact with the SDCERS Board. Ms. LaBonte recalled that at some point Mr. Kern had direct contact with members of the SDCERS Board. He had pension-related meetings that included the Mayor, Dennis Gibson, and Colleen Windsor (Press Secretary). Ms. LaBonte never sat in on these or any other pension-related meetings nor, to her knowledge, did other staff.

Interaction with City Council

Ms. Miller asked about Mr. Kern's contact with Councilmembers and Ms. LaBonte replied that he had regular contact with them. Ms. Miller asked if Mr. Kern had any "allies" on the Council, and Ms. LaBonte responded that Councilmember Jim Madaffer was an ally. Ms. LaBonte thought Councilmember Ralph Inzunza was difficult to deal with because of his immaturity.

One of Ms. LaBonte's responsibilities in the Mayor's office was to work with Mr. Baber, who was responsible for getting items onto the docket. She would run papers downstairs to get docketed, and take messages for him when he was in Council meetings.

Ms. Miller asked if Ms. LaBonte ever prepared materials for submission to the Council, and she replied that she never prepared such materials, but would attend Council meetings if she needed to staff the Mayor when he was giving an award. In these instances, it would be her responsibility to see that everyone who was supposed to attend was present. Ms. LaBonte felt that closed-session meetings were pretty regular and occurred almost weekly. She had nothing to do with closed sessions, and did not think that any staff were allowed to attend.

Blue Ribbon Committee

Turning to the Blue Ribbon Committee ("BRC"), Ms. Miller asked if Ms. LaBonte had a recollection of the reason this Committee was formed. Ms. LaBonte responded that it was created to help with budget issues. Mr. Kern did not have any involvement with the BRC, but would attend meetings concerning it with the Mayor, Mr. Gibson, and Ms. Windsor. Ms. LaBonte did not know whether Mr. Kern ever met with BRC members or attended BRC meetings. She did not know if Mr. Kern ever met with Richard Vortmann, and she did not recall Mr. Vortmann ever calling the office.

Ms. LaBonte was shown a memorandum from the Mayor to the City Council, dated April 4, 2002, regarding the recommendations of the BRC (Exhibit 1). Ms. Miller asked if Ms. LaBonte was aware of which staff members would have worked on this memorandum. Ms. LaBonte did not know whether Mr. Kern or other staff would have been responsible for this work. Ms. Miller then showed her a letter from Mr. Vortmann to the Mayor, dated March 4, 2002, discussing the conclusions of the BRC Report (Exhibit 2). Ms. LaBonte did not recall this letter being received in the office, and did not know if Mr. Kern would have been responsible for responding to it.

Disclosure

Regarding disclosures, Ms. LaBonte stated that she was not aware of offering documents for bond issuances. Mr. Kern did not have meetings regarding these documents, and Ms. LaBonte did not know whether he ever spoke with the City Auditor & Comptroller's Office regarding financial statements. He did meet with Ed Ryan (City Auditor) and Terri Webster (Deputy City Auditor), but Ms. LaBonte was unaware of the subject of those meetings. Ms. LaBonte was not familiar with the *Gleason* lawsuit, but was aware that the *Gleason* lawsuit alleged that the City underfunded the pension system. She did not know if Mr. Kern had any

role regarding pension funding, but suggested that Mr. Gibson might have been involved since he handled financial and budget issues.

Other Pension Issues

Ms. Evans asked Ms. Labonte if there was any period during which Mr. Kern's meetings with Ed Ryan and Terri Webster were more frequent. Ms. LaBonte recalled that they became more frequent when the pension and budget issues were brought to light, but couldn't recall the specific date this occurred.

Ms. Miller asked if Mr. Kern had any involvement in the Meet & Confer process. Ms. LaBonte replied that he did, but that she did not know the nature of his involvement. She did not know if he attended Meet & Confer sessions or other scheduled meetings on this topic. Mr. Kern met with Judie Italiano (MEA President) and other union representatives, but only a couple times a year. Ms. LaBonte recalled Mr. Kern meeting with Ron Saathoff (Firefighter's Union President), but could not recall when or how often, and did not know the subject matter of these meetings. She was not involved in Presidential Leave issues or the Mayor's personal pension benefits, and did not know if Mr. Kern was involved with these issues.

Ms. Miller then asked if Mr. Baber would have been involved with the City Council's vote to grant retroactive benefits to members of the Legislative Officers' Retirement Program ("LORP"). Ms. LaBonte did not recall this issue. She remembered times when there was more buzz about the issues on the docket than others, but did not remember what those issues were. Mr. Kern was not involved in making proposals to Council, and Ms. LaBonte noted that his staff attended Council meetings in his place.

Ms. Miller asked if there were any times during the year or specific situations when Mr. Kern seemed particularly stressed. Ms. LaBonte stated that the budget process took place in June, and then Mr. Kern would be involved in getting materials ready to distribute to all City departments. The Mayor, Mr. Gibson, and Ms. Windsor were also involved in this process, but Ms. LaBonte did not have any personal involvement.

Wastewater Issues

Ms. Miller then asked Ms. LaBonte if she was familiar with issues regarding wastewater rates. She stated that she has some familiarity with wastewater issues, but did not recall specific conversations in the Mayor's office on this issue. Ms. Miller asked if she recalled any requests for meetings from Kelco, and she replied that she did not. Ms. Miller then asked if she recalled any meetings involving Doug Sain. She recalled that Doug Sain met with Mr. Kern, though not frequently. She was unaware of the subject matter of these meetings, and did not recall anything unique about his visits.

Remediation

Ms. Miller then asked what suggestions for remediation Ms. LaBonte would include if she were writing the Audit Committee's report. Ms. LaBonte suggested that the City could use better technology to handle and store all the correspondence that came into the Mayor's office. Ms. Miller asked if she was aware of any improper behavior that the Audit

Committee would be concerned with and she replied that she was not. Ms. Miller asked if she was aware of anything unethical or illegal regarding the City's affairs, and she responded that she was not.

Ms. Evans asked if she had received the SEC document request, and Ms. LaBonte responded that she had. Ms. Evans asked if there was a time where she could not find responsive documents, and Ms. LaBonte stated that there was one instance where they could not find a letter from Mr. Vortmann to the Mayor.

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EXHIBIT 1



OFFICE OF MAYOR DICK MURPHY
City of San Diego

MEMORANDUM

To: San Diego City Council
From: Mayor Dick Murphy *Dick*
Subject: Blue Ribbon Recommendations/Rules Committee Actions
Date: April 4, 2002

1. Blue Ribbon Committee Recommendation #1: Evaluate and determine what an adequate reserve level is for the City. The Committee recommends increasing the reserves to be between 7-10% of General Fund Revenues.

Rules Committee Action: Adopt first sentence only. City Manager's proposal to Rules Committee by July 31st, 2002.

2. Blue Ribbon Committee Recommendation #2 and #3:

#2: Change the City's Funding strategy to one that results in the City fully funding its future obligations earned today which includes the pension benefits as well as health benefits.

#3 Obtain a current and comprehensive analysis of projected pension expenses and revenue sources, which includes the current present value of retiree health benefits to determine the impact on future City finances.

Rules Committee Action: Refer to Retirement Board. Report by June 30th, 2002.

3. Blue Ribbon Committee Recommendation #4, #5, and #6:

#4: The City Manager should establish a process so that all deferred maintenance and unfunded procurement information is developed, aggregated, consistent, complete, non-duplicative, rated for priority, and is available on call for budgetary decisions.

#5: The City Manager should prepare and present a public report during the annual budget hearings identifying the cumulative deferred maintenance backlog and unfunded procurement needs which includes asset descriptions, dollar requirements, and categorized by level of need with funding sources.

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- #6: The City's policy with respect to funding deferred maintenance and Information Technology procurement should be revised to increase expenditures in these crucial areas. While the Committee notes some improvement in addressing deferred maintenance needs in some specific areas, other areas continue to deteriorate.

Rules Committee Action: Adopt recommendation. City Manager's proposal to Rules Committee by August 31st, 2002.

4. Blue Ribbon Committee Recommendation #7: Expand the current revenue sources and seek additional sources of revenue.

Rules Committee Action: Adopt recommendation. City Manager's proposal to Rules Committee by September 30th, 2002. This would include discussion of Right-of-Way Fees.

5. Blue Ribbon Committee Recommendation #8: Seek ways to reduce expenditures through improved operational efficiencies or elimination of specific services in deference to higher priority needs.

Rules Committee Action: Adopt recommendation. City Manager's proposal to Rules Committee by October 31st, 2002. This would include a discussion of limiting City employee growth to the rate of population growth except when we add a new program.

6. Blue Ribbon Committee Recommendation #9: The City should follow its existing six budget principles and add two additional budget principles:

Proposed Principle #7: Budget development should be guided by a long term, or strategic budget plan proposed by the Manager and adopted by the Council.
Proposed Principle #8: Once adopted, annual budgets should be amended only when urgency requires, and then by identifying specific funding sources for these new priorities.

Rules Committee Action: Adopt recommendation. City Manager's proposal to Rules Committee by November 30th, 2002. This would include a discussion of the 2/3 vote that would be required to make a mid-year budget modification.

7. Blue Ribbon Committee Recommendation #10: Submit a report in March 2003 addressed to the Blue Ribbon Committee on Finances summarizing the progress on each recommendation contained in [the] report.

Rules Committee Action: Adopt recommendation. City Manager's report to Rules by March 2003.

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EXHIBIT 2



NATIONAL STEEL AND SHIPBUILDING COMPANY
A GENERAL DYNAMICS COMPANY

RICHARD H. VORTMANN
PRESIDENT

OFFICE OF
MAYOR DICK MURPHY

MAR 05 2002

March 4, 2002

BRC

Minority
Unofficial Report

The Honorable Dick Murphy
Mayor, City of San Diego
202 C Street
San Diego, CA 92101

Dear Mayor Murphy:

At the risk of being presumptuous, I wanted to share with you in a non-public fashion my personal conclusions emanating from my work on your Blue Ribbon Finance Committee. A great deal of hard work was invested in the Committee's final report and I am in full agreement with all of it save for the "tone" of the conclusion. While all committee members (including me) ultimately aligned behind that conclusion, it was the work of the "compromise process" reflecting the many different views inherent in any committee and the desired "spin" to be put on the conclusion for public consumption. I thought you might find some value in my personal "unofficial" draft conclusion which ultimately transformed itself to what you see in the official report. I still personally believe the draft is a more accurate "un-varnished" summary of the City situation despite the Committee's (with my consent) going with the final, published version in the report.

That "draft" conclusion is attached hereto.

I would like to emphasize one point. All the issues raised in the Committee report require significant City attention. However, one, the Pension and Retiree Health issue, requires immediate attention in that this issue most likely will arise in the soon to commence "Meet and Confer" process. Given that the County has just granted significant improvements in benefits - to levels greater than City employees currently receive - it is likely there will be negotiating pressure to match those improvements.

Whether such is appropriate or not is a City policy issue and was not the purview of the Blue Ribbon Committee. However, I believe before the City enters into any such discussion, it needs to fully understand its current Pension and Retiree Health situation. It is very complex and it is easy to get lost in the actuarial details and fail to grasp the big picture.

Further, it is all too easy under the pressure of negotiations, to grant increases in pension and retiree health and then, through clever manipulation of complex actuarial accounting and assumptions, defer the payment for those new costs out several years.

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(past the incumbents' time in office) to become a burden to future years' taxpayers for costs actually incurred in the present years.

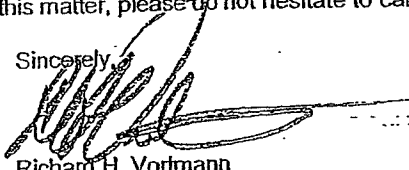
This problem already exists. Predecessor regimes apparently purposely made the decision to push costs out to future taxpayers. The current years' budgets i) are not paying the full cost of the pension currently being earned by the existing workforce in that current year, and ii) are not paying any of the cost of the retiree health benefits rights being earned by the existing workforce in the current year. Retiree Health benefits are only being paid - by the Retirement System - on a actual expense incurred basis for the existing retirees. There is no recognition in the current City annual budget for the sizeable future retiree health care liability they are creating today which will have to be paid out in future years. Further, I am convinced no one even knows how big this liability is and how fast it is growing. Businesses in the private sector had to address this problem a decade ago when an accounting rules change required significant disclosure. Government accounting rules have not yet made a similar disclosure requirement and therefore the problem remains "hidden."

As the Blue Ribbon report indicates, even without addressing Retiree Health costs, just the Pension expense, a non-discretionary line item in the budget, will already have to increase from \$68m in FY'01 to approximately \$106m in FY'06.

The other Committee members are not aware I am sending this letter to you. By doing such, I am in no way attempting to denigrate the collective work of the Committee. Further, this is not intended as a formal, "minority dissenting opinion." Rather, I offer the letter only as additional, unofficial, food for thought.

If I can be of any further assistance to you on this matter, please do not hesitate to call.

Sincerely,


Richard H. Vortmann
President

RHV/lh

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NATIONAL STEEL AND SHIPBUILDING COMPANY
A GENERAL DYNAMICS COMPANY

RICHARD H. VORTMANN
PRESIDENT

OFFICE OF
MAYOR DICK MURPHY

MAR 05 2002

March 4, 2002

The Honorable Dick Murphy
Mayor, City of San Diego
202 C Street
San Diego, CA 92101

Dear Mayor Murphy:

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Further, it is all too easy under the pressure of negotiations, to grant increases in pension and retiree health and then, through clever manipulation of complex actuarial accounting and assumptions, defer the payment for those new costs out several years

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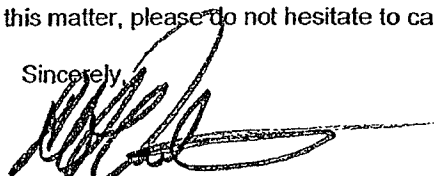
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If I can be of any further assistance to you on this matter, please do not hesitate to call.

Sincerely,



Richard H. Vortmann
President

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